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General Motors Company

UAW Strike Implications

Sector: Autos & Auto Parts

Outperform

NYSE: GM

Price: USD 38.86

All values in USD unless otherwise noted.

Impact: UAW strike could cost GM $40-$50mm per day

UAW members are striking GM's U.S. factories as ~46k hourly GM UAW members walked off the line at midnight, marking the first major strike since 2007 (which lasted two days). We estimate that each day of the strike could cost GM ~$40-$50mm in EBIT. There are also working capital considerations though this is much harder for us to estimate. Contract negotiations are expected to restart this morning.

Major sticking points for the UAW include limiting the number of temporary workers GM is allowed to use, giving new members a faster route to senior-level wager of >$30/hour. The UAW was clearly annoyed with GM's decision to unallocate product to certain US facilities, but as we have also noted in prior research, we believe rank-and-file distrust among union leaders is high given the leadership scandals. Also remember, in March the UAW increased strike pay to $250/week from $200/week as they raised dues to boost the strike fund to $850mm.

GM's offer to the UAW included over $7bn in investments, more than 5.4k jobs, wage increases in all four years of the agreement (plus other benefits), retention of healthcare benefits with some new coverage for certain conditions, a ratification payment of $8k (~$368mm total). The offer also included solutions for unallocated assembly plants in Michigan and Ohio, investments in 8 facilities across 4 states, the introduction of all-new electric trucks (likely to Detroit-Hamtramck), and the opportunity to become the first union-represented battery cell manufacturing site in the U.S. (likely to Lordstown) as well as additional new vehicle and propulsion programs. In the last round of negotiations (2015), negotiators secured similar benefits from GM including 3–4% annual wage growth, ~$8.3bn in investments, plans to create/retain ~3k jobs, along with an $8k ratification bonus.

In terms of retail, GM's U.S. inventory levels are relatively heightened (~77 days vs. industry ~61 days). On the trucks, Silverado at 94 days, Sierra 84 days. So GM may have "pre-built" some vehicles as a buffer against a strike risk. So consumers shouldn't really feel much of an impact. But clearly the longer a strike persists, the greater magnitude of a headwind for the company. We continue to monitor the situation.

From a supplier perspective, many have content on GM vehicles produced in the US. Below we present a list of GM U.S. final assembly locations, vehicles produced there, estimates daily units produced, and suppliers we believe are on the vehicles (work in progress).

GM US Final Assembly Locations and Vehicles Produced

Plant	Vehicle	Daily Units	Suppliers
Arlington	Tahoe, Yukon, Suburban, Escalade	~1,000	AXL, APTV, BWA, DLPH, LEA, MGA, TEN
Bowling Green	Corvette	~55	
Detroit-Hamtramck	CT6	~30	
	Impala	~55	
Fairfax	Malibu	~365	ALV, BWA, DLPH, LEA, MGA, TEN, VNE
	XT4	~100	
Flint Truck	Silverado HD, Sierra HD	~650-700	AXL, APTV, BWA, DAN, DLPH, LEA, MGA, TEN
Fort Wayne	Silverado, Sierra	~850-900	AXL, APTV, BWA, DAN, DLPH, LEA, MGA, TEN
Lansing Delta Township	Traverse, Enclave	~600	
Lansing Grand River	Camaro	~60	
	CT5	~90	
Orion	Sonic	~40	
	Bolt EV	~70	
Spring Hill #2	Acadia, XT5, XT6	~600	
Springfield	Savanna, Express	~50	
Wentzville	Savanna, Express	~250	
	Colorado, Canyon	~400	DAN

Source: IHS, RBC Capital Markets estimates

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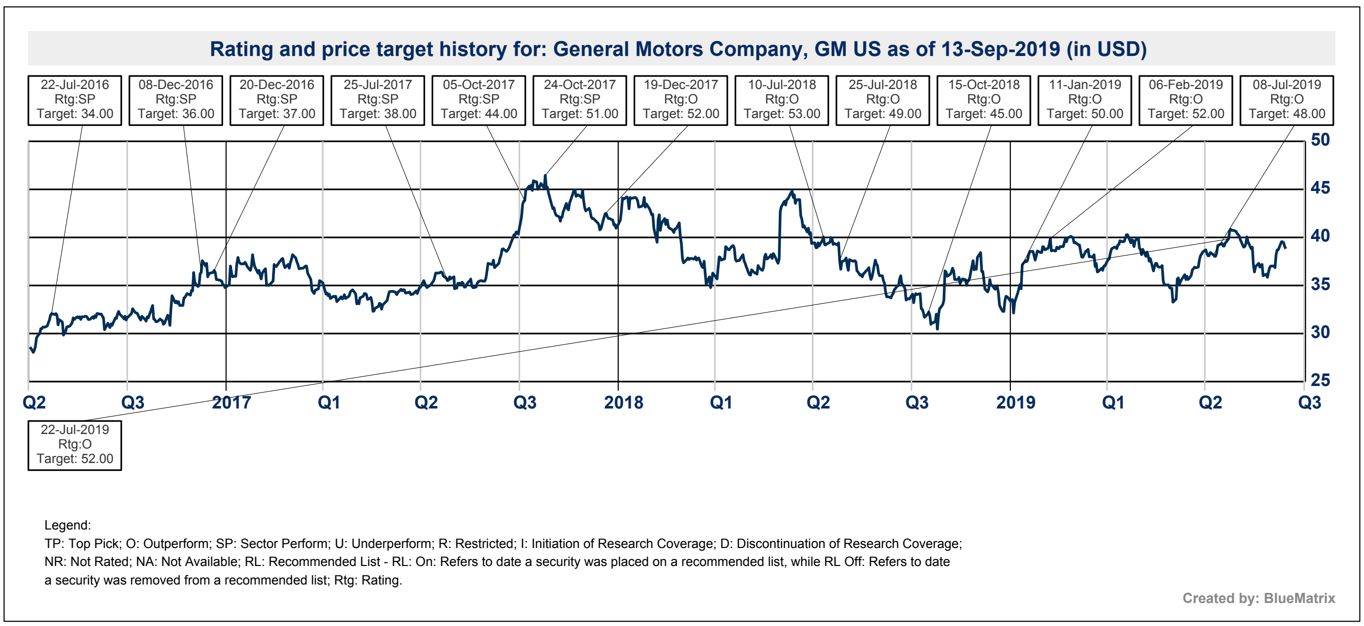

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General Motors Company

Valuation

Our $52 price target is derived using our SOTP analysis, which values "Core" GM and "GM Tech" separately, and also considers cash, pension, and GM Corporate. The blended multiple comes to ~3.6x 2020E Auto EV/EBITDAP. Note that we value GM Financial separately at 0.7x book value. Our price target and implied return support our Outperform rating.

Risks to rating and price target

- The auto industry is highly cyclical with sales volumes influenced by employment levels, interest rates, and consumer confidence, among other things. A weaker-than-expected macro environment could result in increased pricing pressure/more incentives and lower-than-expected financial results.
- There is a secular shift toward smaller, more fuel-efficient vehicles, which could be a negative for GM, which historically has been more successful with higher-margin trucks.
- A good portion of our GM investment thesis depends on the company's leading position in BRIC/developing markets, where political risks are not insignificant.
- In a rising commodity price environment, GM may not be able to pass along higher input costs.

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